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C O N F I D E N T I A L ABUJA 002039

SENSITIVE  
SIPDIS

S/CIEA FOR DAVID GOLDWYN AND MICHAEL SULLIVAN  
EEB/ESC FOR DOUG HENGEL  
STATE PASS USTR FOR AGAMA  
STATE PASS EXIMBANK FOR ROBERT DOYLE, FRANCES NWACHUKU AND  
SURESH TATA  
TREASURY FOR TONY IERONIMO AND ADAM BARCAN

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TAGS: [ECON](#) [EFIN](#) [EPET](#) [EINV](#) [ENRG](#) [IMF](#) [NI](#)  
SUBJECT: IMF REPRESENTATIVE DISCUSSES PIB, CBN REFORM, GDP  
GROWTH, FOREX RESERVES, AND BAD DATA

Classified By: Ambassador Robin R. Sanders for Reasons  
in Sections 1.4 (b) and (d).

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SUMMARY  
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¶1. (C) The IMF Resident Representative in Abuja said that the Nigerian National Petroleum Corporation reacted defensively when the IMF team reviewing the Petroleum Industry Bill presented its aide memoir to the Minister of Finance on October 23. He said it was too early for domestic and foreign banks to purchase Nigeria's recently intervened banks because the resolution structures have not been determined, forensic audits have not been completed, and transfer of ownership issues have not been resolved. The Yar'Adua administration has not given reform the priority it enjoyed under the Obasanjo government because policy making is now more complex and it is difficult to obtain the votes in the National Assembly to approve the necessary legislation. The IMF is projecting GDP growth of 3.0 percent for 2009, which is half the CBN's projection. The CBN data is generally unreliable, which limits the quality of economic analysis. END SUMMARY.

¶2. (C) IMF Country Chief and Resident Representative David Nellor spoke to Economic Counselor and Trade and Investment Specialist about a broad range of economic issues on November 12. The topics included the Petroleum Industry Bill (PIB), the Central Bank of Nigeria (CBN) reform of the banking sector, potential foreign investment in the banking sector, the GON-IMF relationship going forward, government planning, GDP growth, foreign exchange reserves, and the poor quality of the available macroeconomic data.

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PETROLEUM INDUSTRY BILL  
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¶3. (C) Asked about the recent IMF review of the PIB, Nellor confirmed that the visiting IMF team had presented its aide memoir to the Minister of Finance Dr. Mansur Muhtar and Nigeria National Petroleum Corporation (NNPC) Group General Manager, Planning, Strategy and Transformation Timothy Okon on October 23. Nellor, who participated in the presentation, said that Okon had reacted defensively when the team discussed the structure and level of taxation for the international oil companies (IOCs). Okon criticized the IMF

team's use of IOC data in its review, but Nellor described the criticism as unfair, since the NNPC had not provided its own data, leaving the Ministry of Finance "in the dark" on oil production costs. Nellor added that Vice President Goodluck Jonathan had hosted a meeting with the IOCs to discuss what the "final replacement charges" should be, with additional meetings likely for this purpose. Nellor said the Minister of Finance had 21 day in which to respond (i.e., by November 13), but he described this date as arbitrary. He did not think the IMF team's final report would have any significant changes. (See Abuja 1961 for additional background on the IMF review of the PIB.)

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CENTRAL BANK OF NIGERIA REFORMS  
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14. (C) Regarding the status of CBN reforms of the banking sector, Nellor added that it was still too early for any of the domestic or international banks to purchase Nigeria's recently intervened banks. The first issue that needs to be

resolved is the resolution structure of the troubled banks. For example, the banks had two types of shareholders -- "the majority shareholders who violated the rules" and "the smaller shareholders who had been duped." "People feel differently about both groups," he said, "and all of these things involve costs." A CBN decision to protect one group or the other, or remain neutral, could affect the attractiveness of a bank to potential buyers.

15. (C) A second issue involved the completion of the CBN audits. The CBN completed the initial rounds of audits on August 14 and October 2 to determine the liquidity and

solvency of the local banking sector. The CBN has now begun a series of forensic audits to determine criminality. The CBN will encounter difficulty in turning the banks over to new management until a more detailed analysis is completed. (COMMENT: The CBN announced a decision on November 4 to restore principal shareholder Dr. Mike Adenuga Jr. to the board of Equatorial Trust Bank, one of the eight intervened banks, after it was determined that he was not guilty of any criminality, such as insider lending and money laundering. The decision included a commitment by Adenuga to bring in new investors and reduce his "sole proprietorship," which is seen as a potential threat to bank's internal checks and controls. END COMMENT).

16. (C) A third issue involved transfer of ownership. the unresolved questions included whether restructured banks would accept legal claims from previous shareholders, depositors and creditors or whether these liabilities would be transferred to an asset management company, and whether the new owners would pay just one purchase price or whether they would have to pay a purchase price and make up for negative capital. As it stands, a bank purchase does not make sense if there is negative capital. "They want to move quickly," he said, "but there are tough questions to be signed off on before you get there."

17. (C) Nellor thought that the CBN would probably close some of the eight intervened banks. He said what surprised him was not the profit-and-loss-issues, but the governance issues like what took place at one bank where the Board of Directors rejected 37 loan applications and the Managing Director or CEO of the bank approved them. The scale of inter-family loans was also surprising, as were the loans to subsidiaries, the proceeds of which were then reinvested back into the bank as shareholders' capital. (See Lagos 405 and 388 and Abuja 1992, 1954 and 1945 for additional background on the CBN reforms of the banking sector.)

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FOREIGN INVESTMENT IN THE BANKING SECTOR  
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18. (C) Nellor said CBN Governor Lamido Sanusi remained open

to foreign capital and was pleased with the amount of international interest shown in the possibility of purchasing the intervened banks. He said four South African banks, one U.S. bank, and Barclays of the U.K. had expressed interest. The South African banks included ABSA Bank and Rand Merchant Bank. He noted that Barclay's Bank, which owns a majority interest in the ABSA bank of South Africa, used to own the now troubled Union Bank of Nigeria before it was nationalized in 1979. He did not mention the identity of the U.S. bank. Foreign investment in the banking sector will be a political issue, but the GON sees it as a developmental issue and it wants better controls within the banks. Foreign ownership may be a way of introducing these controls. (COMMENT. Barclay's could be deciding whether to invest directly from the U.K. or indirectly through ABSA Bank of South Africa. END COMMENT).

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GON-IMF RELATIONSHIP GOING FORWARD  
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(C) Asked about the nature of the GON-IMF relationship going forward, Nellor noted that the most recent GON-IMF Policy Support Instrument (PSI) concluded during the first quarter of 2008. The formal PSI has been replaced by "ongoing policy consultations and advice, buttressed by technical assistance in a broad range of areas." For example, there are two IMF experts working in the CBN, one in the area of bank supervision and one in the area of operational dimensions of monetary policy.

¶10. (C) Nellor added that while the GON has talked about implementing a new PSI, he does not anticipate it any time soon, if for no other reason than the run-up to the 2011 national elections. The issue-of-the-day when the PSI was discussed was how to articulate fiscal policy in a federal setting, i.e., how to control the 50 percent of government revenues that go to the states. The instrument used to

control federal revenues under the Obasanjo government was the "oil price-based fiscal rule" and the way it was enforced was to "twist the arms of the states." The Yar'Adua government wanted to maintain the oil price-based fiscal rule, but "they never did that because it was not backed by any legislation. In short, the GON could no longer twist arms under a President "who insists on the rule of law."

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VISION 20 - 2020 AND THE ELECTIONS OF 2011  
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¶11. (C) Regarding the potential importance of the soon-to-be-released Vision 20-2020 government plan, Nellor said the GON had released multiple planning documents, including the National Economic Empowerment and Development Strategy (NEEDS I) of 2004, NEEDS II of 2007, and the Seven-Point Agenda of 2007, and now planned to publish the Vision 20-2020 at the end of this year. Vision 20-2020 would be an umbrella for a more articulated plan but implementing the plan would be far more important.

¶12. (C) Nellor explained that the current administration had not given reform as much priority as it was under the Obasanjo government from 2004-2007. The political pendulum has now swung to the National Assembly, and the Yar'Adua government can not deliver the votes to secure passage of its budgets. State governors are now more vocal and policy-making is now much more complex. As a result, he predicted, no reforms will occur, and "There will be regrets when they get to the next election," he said.

¶13. (C) Asked about the expected passage of the 2010 budget, Nellor said delays always occurred while the Yar'Adua government rounded up the necessary votes to gain National Assembly approval. The Yar'Adua government struck a deal with the ruling People's Democratic Party (PDP) last year, but the PDP could not deliver the votes. Nellor added that

the Minister of Finance is "fighting fires every five minutes" and is "overwhelmed." President Yar'Adua gives him things that should go to the line ministers and he lacked time to start anything new.

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GDP GROWTH, FOREIGN EXCHANGE RESERVES AND BAD DATA  
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¶14. (C) Regarding the gross domestic product (GDP) growth projection for 2009, Nellor said the IMF does not rely on the CBN's annual growth projection because the CBN data is "suspect." For example, the CBN quarterly growth figures do not include gas production. An another example, the CBN figure used a one percent inflator during one quarter when inflation was 15 percent. In short, the CBN has very little short-term activity data. The IMF is providing technical assistance to the CBN, with production of reliable data remaining "a work in progress."

¶15. (C) The agricultural sector largely drives GDP growth and the IMF believes the sector has grown six percent per year for the last several years, largely as a result of increased planting, rather than greater productivity. This year's harvest is also good. Rapid growth in agriculture, which represents over half of Nigeria's GDP, however, is offset by slowdowns in the oil, financial and construction sectors. Increased public sector spending financed by drawdowns from the Excess Crude Account have helped to offset the decline in revenues arising from shut-ins in oil production and the slide in the international price of oil. (See Abuja 1846 for additional background on this year's harvest.)

¶16. (C) Nellor said the IMF staff put these various sector projections together and arrived at a 3.0 GDP growth projection for 2009 -- half the CBN projection. Nellor cautioned that this figure could be low because the most recent IMF staff report did not take into account the GON's most recent \$2 billion dollar drawdown from the Excess Crude Account. (See Abuja 1954 for additional background on the CBN's GDP growth projection for 2009, drawdowns from the Excess Crude Account, and foreign exchange reserves.)

¶17. (C) On foreign exchange reserves and the Excess Crude Account (ECA), Nellor said that the CBN's total of \$40 billion in foreign exchange reserves for the end of 2009 has been bumped up by the most recent \$2.4 billion Special Drawing Rights (SDR) allocation that was provided in August ¶2009. Had it not been for the SDR allocation, total foreign exchange reserves would have been \$37.6 billion. The ECA will amount to \$10 billion at the end of the year because of higher oil prices and rising production as result of the GON's amnesty program in the Niger Delta. However, the ECA currently only has \$7 billion in it because the GON has used it to compensate for the shortfall in oil revenue, the 2009 budget projection for which was overly optimistic. (COMMENT. Revenue Mobilization Allocation and Fiscal Commission (RMAFC) Chairman Hamman Tukur complained in September that the ECA had fallen to \$7 billion. END COMMENT.)

¶18. (C) Nellor added that the IMF used the CBN's balance of payments numbers for the first time this year and they "need a lot of work." The remittance number for last year, at \$32 billion, "is a fiction." Some commercial banks use the same remittance number every month, which is good indication that they are making up the numbers. (COMMENT. The World Bank Migration and Development Brief released on November 7 projected that Nigeria will receive an estimated \$10 billion in remittances in 2009, making Nigeria the world's sixth largest recipient of remittances, after India, China, Mexico, Philippines and Poland. END COMMENT.)

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BIO NOTE  
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¶19. (C) Nellor has worked on the IMF's Nigeria account since

2005 and has been open to the U.S. Embassy since his arrival in Abuja in early 2009. He was also the team leader for the IMF's most recent PSI Mission (2005-2008). Consequently, he knows more about Nigeria's economy than most expatriates here. He is calm, measured and, thoughtful. He lives by himself in Abuja, as his wife and children remained in the Washington D.C. area. Nellor promised to provide a read-out of the IMF team that will complete its review of CBN reforms of the banking sector on November 11. Unfortunately, Nellor will return to Washington next May.

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COMMENT  
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120. (C) Nellor is a valuable source of insight into the CBN reforms of the banking sector and the limitations that the GON faces in pursuing other key reforms, such as the PIB, the Nigerian Local Content Bill, and the amnesty program in the Niger Delta. He has also confirmed what many have suspected -- that the CBN data is unreliable and must be used with caution.  
SANDERS